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Bureaucratic reform in post-Asian Crisis Indonesia: The Directorate General of Tax

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ABSTRACT

Our research examines a key aspect of the extensive bureaucratic reform program that was applied to the Indonesian public sector following the Asian Economic crisis. The organisation we focus on is the Indonesian Directorate of Tax. The reforms moved the case organisation towards more bureaucratic organisational arrangements. The most notable elements of the reforms related to the organisational efficiency and changes in administrative style and culture. An ethnographic approach was adopted, in which the researcher was immersed in the life of the selected case organisation over an extended period of time. This research extends a thin literature on the topic of management control and culture in the Indonesian context. Also, this paper fills a gap in the theoretic approaches for studying bureaucracy, which is dominated by western conceptualisations. This paper provides a reminder to policy makers (including organisation such as the World Bank and the International Monetary Fund) of the consequences of neglecting cultural influences when conducting bureaucratic reform.

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1. Introduction

This paper examines concerns related to the bureaucratic reform process conducted in the context of strong cultural influences in the Indonesian public sector. The findings are framed utilising Weber's theory of bureaucracy (du Gay, 2008, 2011; Weber, 1974; Willmott, 2011) and Geertz's defining ideas on culture (Geertz, 1960, 1961, 1973; see also Efferin & Hopper, 2007; Tsamenyi, Noormansyah, & Uddin, 2008). The setting of the research provided a unique opportunity to observe the day-to-day interactions within an institution during the processes associated with the implementation of bureaucratic reforms.

The government of Indonesia is in the midst of a major bureaucratic reform program to improve its reportedly ineffective public service, which has been held responsible for major cases of corruption. This state of affairs has also been argued to stifle the development of the national economy (World Bank, 2003). The reform process was instituted as part of an agreement between the government of Indonesia and the IMF under the Letters of Intent (LOIs) following IMF intervention in 1997. The IMF's LOIs were used to detail an extensive reform process including that of tax administration which was a particular focus of the program (Soesastro, Aswicahyono, & Narjoko, 2008).

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It is well-recognised that the IMF and the World Bank have been the main instigators of such agendas of public sector reform, which they refer to as Structural Adjustment Programs or SAPs (Neu, Rahamana, Everett, & Akindayomi, 2010; O'Brien et al., 1998; Uddin & Tsamenyi, 2005). These initiatives have been commenced in the less developed countries (LDCs) in several regions, including South East Asia, Latin America, and Africa. Despite the fact that these programs have paved the way for the building of new public institutions, criticisms of these initiatives have remained. These include their failure to render the improvement of the nation's economy (Uddin & Tsamenyi, 2005) and the inapplicability of a Western framework of institutional reform in a non-western setting (Bouckaert, 2007; Bowornwathana, 2007; Ferlie, Pettigrew, Ashburner, & Fitzgerald, 1996; Minogue, 2001; Noordhoek & Saner, 2005; Ohemeng, 2010; Sozen & Shaw, 2002).

The on-going debates about whether there is a one-size-fit all approach of reforming the public institutions have been one of the main triggers of the commencement of this research. The so-called neo-liberalist's method of revitalising the public sector claimed that the management of public institutions in the LDCs should follow the ones in developed countries (for example: Osborne & Gaebler, 1992). On the other hand, other writers believe that there should be careful modification of the promoted "New Public Management" to be able to work within different cultures (Ferlie et al., 1996; Hood, 1995; Hood & Peters, 2004). This paper builds up the latter stance and suggests that a thorough evaluation of the adoption of a Western bureaucratic approach within a specific context (Berger, 1957; Eisenstadt, 1968; Azumi & McMillan, 1975 in Horvath, McMillan, Azumi, & Hickson, 1976; see also Hopper, Tsamenyi, Uddin, & Wickramasinghe, 2012), such as Indonesia, should be conducted.

The approach we adopt is based on the underpinning conjecture that the adoption and implementation of control mechanisms within an organisation, such as that resulting from the bureaucratic reform program in Indonesia, is dynamic and influenced by its context (Ahrens & Mollona, 2007; Ansari & Bell, 1991; Birnberg & Snodgrass, 1988; Dent, 1991; Hopwood, 1987). Therefore, the argument in this research is founded upon a belief that control systems are implicated in producing a socially constructed reality that is strongly influenced by powerful cultural traditions and norms of behaviour (Miller, 1994; Morgan, 1988; Munro, 1995; Neimark & Tinker, 1986).

This research seeks to give prominence to the impact of the organisational surroundings and particularly the influence of culture in understanding changes in organisational control systems. As Flamholtz (1996) advocates, to understand organisational control, we have to include culture and an appreciation of the external environment into our analytical framework. Ansari and Bell (1991) identify national culture as a major explanatory element affecting control processes, while Dent (1991) and Ahrens and Mollona (2007) find that organisational culture influences the control mechanism within different organisations, including the public sector (see also Broadbent & Guthrie, 1992). This research adopts a similar approach to the recognition of culture as a critical explanatory factor in making sense of the implementation and the effects of bureaucratic reform in the case organisation that are the focus of this research.

Our study contributes to the existing literature on control and culture in two ways. First, since this research explores the native Javanese culture to understand the effects of control mechanisms within the case organisation, it extends the very limited literature on control and culture in the Indonesian context. Second, because this research was conducted within a public institution in Indonesia, it provides a useful discussion and complement to the current literature, which focuses on private sector organisations (Efferin & Hopper, 2007; Tsamenyi et al., 2008).

The next section of the paper discusses the background to the bureaucratic reform. The paper then elaborates the unique setting of the research, which is dominated by Javanese culture. The third section of the paper provides an outline of the research design and is followed by a brief context of the case organisation. The empirical findings of the research are discussed in two main case sections. First, the reform initiatives to create impersonal interaction within and between organisations are presented. This is followed by a discussion on the cultural implications and interdependencies of the implementation of the reform initiative. A brief concluding commentary reprises the main findings and implications of this research.

2. Indonesian reforms following the Asian Crisis

This section introduces the various contextual issues that led to the very major reform process that Indonesia undertook following the 1997 Asian Crisis. The next section briefly recounts key aspects of the economic and political background that had a key bearing on character of the reforms. The second sub-section elucidates how Javanese culture dominates every aspect of the life of Indonesian people, including the bureaucracy. Later in the paper we present our empirical evidence and describe how the historical and particularly the cultural setting of the bureaucratic reforms can be seen to affect practices in the case organisation. We return later in the paper to describe some of the ways that culture has implications for change of control systems within organisations (Flamholtz, 1996).

2.1. Economic, socio-political context

The severe recession in the Indonesian economy following the Asian Crisis in 1997 triggered political and social unrest in Indonesia, and eventually forced a change of regime. Greater democracy brought changes, particularly the establishment of a more powerful public sphere, which used to be suppressed and alienated from the nation's decision making during the earlier authoritarian regime. Some commentators argued that at this time the public demanded what they call '*Reformasi Total*' or 'total reform' of all aspects of the life of the nation, including the political and economic systems (Tjiptotherijanto,

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